



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

May 17, 2013

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From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

STATE BUDGET - ANALYSIS OF THE GOVERNOR'S FY 2013-14 MAY REVISION

OVERVIEW

On May 14, 2013, Governor Jerry Brown released his \$145.7 billion May Revision to the FY 2013-14 Proposed Budget, which includes \$96.4 billion in State General Fund expenditures and a \$1.1 billion reserve. The May Revision provides for a balanced budget and maintains the fundamentals outlined in the Governor's January Budget plan to reinvest in education, expand health care, pay down the budgetary debt, and build a prudent reserve. The Governor notes that the May Revision reflects the State's continuing economic and budget recovery, but cautioned that the national economic recovery has dimmed since the release of his budget proposal in January and that recent Federal actions have slowed the State's economic growth resulting in a downward revision of the State's short-term economic outlook. **Similar to the Governor's January Budget, the May Revision contains no significant reductions to County-administered programs with the exception of potential impacts related to the implementation of Federal Health Care Reform, which is a critical priority to the County and remains an essential element of the overall State Budget.**

Governor Brown indicates that while the State has experienced a multi-billion increase in current-year cash receipts, he expects that the influx will be short-lived. The Governor notes that K-12 education will benefit most from this one-time increase by receiving an additional \$2.9 billion funding in the current year as required under Proposition 98.

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As he indicated in January, the Governor continues to warn that the State Budget is balanced by a narrow margin and that a number of risks could quickly result in a return to fiscal deficits. The potential risks include: 1) the uncertain pace of the economic recovery; 2) potential costs if the State is unsuccessful in convincing the courts that it is now meeting requirements to reduce prison overcrowding and improve the quality of health care for inmates; 3) rising costs for health care reform implementation; 4) pending court actions which could reverse or undermine approved State Budget actions; and 5) potential Federal actions which could result in funding reductions or cost shifts to states.

The three major element of the May Revision are:

- 1) Investment in Education - includes a \$2.9 billion increase in Proposition 98 funding to K-14 education programs in FY 2012-13 with \$1.0 billion of that to go to K-12 school districts to implement the new national standards for writing and math;
- 2) Health Care Reform Implementation - proposes to implement a State-based approach to Medi-Cal expansion for health coverage pursuant to the Federal Affordable Care Act;
- 3) State Debt Reduction and Budget Reserve - proposes to continue to pay down the State's budgetary debt to under \$5.0 billion by FY 2016-17 and establishes a \$1.1 billion reserve in FY 2013-14.

Economic Outlook

While the May Revision continues to reflect a balanced budget, it points to a slower than expected economic recovery and includes a State General Fund revenue forecast that is \$1.3 billion below the number included in the January Budget Proposal. According to the Administration, the primary drivers of the reduced revenue forecast are the expiration of the payroll tax holiday and automatic Federal spending reductions. In addition, many taxpayers shifted the realization of capital gains from 2013 to 2012 in order to avoid the higher Federal tax rates on capital gains beginning in 2013.

The May Revision does acknowledge the State's receipt of higher than expected Personal Income Tax (PIT) payments which were up by \$4.5 billion through the end of April 2013. According to the Administration, however, a majority of the PIT receipts are attributable to FY 2012-13 and the May Revision projects that FY 2013-14 PIT revenue will be down by \$900 million compared to January estimates. Finally, approximately

\$400 million received in 2012 is attributable not only to FY 2013-14, but FY 2011-12 as well. In the long-term revenue forecast, the May Revision projects an average year-over-year growth rate of seven percent in the three largest State General Fund revenue sources (Sales Tax, PIT and Corporate Tax) through FY 2016-17.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, it appears that the County will not experience a significant loss of funding or program reductions from the Governor's proposals. **However, the May Revision does contain a proposed State take-away of the County's 1991 Health Realignment revenues as part of the implementation of health care reform.**

As part of the Governor's proposal for a State-based option for the expansion of the Medi-Cal Program, the Administration would redirect 1991 Realignment funding currently spent by counties to pay for State health care costs. The Governor proposes to develop a formula to determine the level of savings that each county will achieve under health care reform and would then redirect these savings to support social services programs at the local level. Counties would retain responsibility for public health services. **Based on the County's share of 1991 Health Realignment revenues, the County may experience the redirection or potential losses of \$88.6 million in FY 2013-14, \$265.9 million in FY 2014-15 and \$384.0 million in FY 2015-16. However, it is important to note that these impacts do not account for potential revenue offsets from the Governor's proposed mechanism to preserve the safety net which could mitigate potential County impact.** This health care reform proposal is described in further detail below and in Attachment II.

Overall, we estimate a potential County loss of \$46.4 million in FY 2013-14 primarily attributed to the potential loss or redirection of \$88.6 million in 1991 Realignment funds from health care reform implementation, which would be partially offset by funding for County administration functions (\$21.6 million), increased funds for the CalWORKs Program (\$13.9 million), and the restorations to Child Support Services (\$6.7 million).

Attachment I outlines the estimated fiscal impact to the County from the May Revision proposals, and Attachment III provides a summary of the proposals of interest to the County. Attachment IV outlines the projected funding allocations for all programs shifted under the 2011 Public Safety Realignment.

Implementation of Health Care Reform

The May Revision identifies \$1.5 billion for the implementation of Federal health care reform starting on January 1, 2014 and includes the following elements:

Medi-Cal Expansion. Proposes a State-based expansion of the Medi-Cal Program as provided under the Federal Affordable Care Act and drops the county-based option contained in the Governor's January Budget. The Administration continues to assume that with the implementation of health care reform, counties will achieve significant savings as responsibility for indigent health care decreases and that the State will bear additional costs and risks to expand Medi-Cal coverage to newly eligible persons.

The Governor proposes to develop a mechanism to determine the level of savings that each county will achieve under health care reform and to then, over time, redirect 100 percent of these savings to fund the State's share of cost to support social services programs at the local level.

Mechanism to Determine County Savings. Under the mechanism, each county's savings would be determined by measuring actual county costs for providing services to Medi-Cal and uninsured patients against the revenues received for these services including: patient care revenues; Federal funds; 1991 Realignment health funding; and net county contributions provided to support health care services.

The mechanism would include the following elements:

- Incentives for cost containment and maximizing enrollment in health care coverage;
- An accounting of remaining uninsured persons; and
- A cap on cost of growth of county expenditures based on historic trends.

Shift of County Savings Projections. Although the Governor notes that the mechanism to determine county savings for health care reform has not been developed, the May Revision assumes a shift of 100 percent of savings from local health programs to fund local social services programs over time. The projected savings include:

FY 2013-14	\$300.0 million
FY 2014-15	\$900.0 million
FY 2015-16	\$ 1.3 billion
FY 2016-17	New realignment of social services programs

Increased County Financial Responsibilities for Social Services Programs. The May Revision proposes to shift greater financial responsibility for the following social services programs over time to counties: CalWORKs Program, CalWORKs-related Child Care Programs (Stages 1, 2, and 3), and administration costs under the CalFresh Program. The May Revision proposes that counties would be responsible for the coordination of all client services and would have opportunities to reinvest caseload savings and revenue growth in the CalWORKs Program and CalWORKs Child Care Programs based on their local needs and priorities.

This office and the Department of Health Services (DHS) support the Governor's proposal for a State-based Medi-Cal expansion and agree with the concept of the mechanism to determine the cost and savings arrangement with the State. However, DHS indicates that the proposal to redirect funding linked to projected County savings for health care reform is extremely premature. According to DHS, approximately 1.1 million persons in Los Angeles County will remain uninsured after full implementation of health care reform. The May Revision proposal undermines the County's efforts to implement health care reform and to maintain the County's safety net. **As noted above, we estimate that this proposal could result in the redirection or potential County loss of \$88.6 million in FY 2013-14, \$265.8 million in FY 2014-15, and \$384.0 million in FY 2015-16.** It is important to note that these impacts do not account for revenue offsets from the Governor's proposed mechanism to preserve the safety net which could mitigate potential County impact.

Other Key Elements of the May Revision of Interest to the County

County Administration Costs and Health Care Reform Implementation. The May Revision includes a \$71.9 million increase Statewide in FY 2013-14 for increased county administration costs related to the implementation of health care reform to process new applications and redeterminations, develop training and curriculum materials, train county eligibility workers and support planning and implementation activities. If enacted, the Department of Public Social Services (DPSS) will receive an estimated \$21.6 million from this proposal.

CalWORKs Program. The May Revision includes a \$48.3 million increase Statewide for CalWORKs job training and subsidized employment opportunities, to promote family stabilization and implement additional appraisal protocols. If enacted, DPSS will receive an estimated \$13.9 million from this proposal.

Funding for County Probation - The May Revision restores \$72.1 million for funding of SB 678 (Chapter 608, Statutes of 2009) for a Statewide total allocation of \$107.0 million. SB 678 provides funding to county probation departments that

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successfully reduce the number of felony probationers that are sent to State prison on new charges. The Probation Department was allocated approximately \$53.0 million under SB 678 for FY 2012-13 and expects a similar amount for FY 2013-14 with the restoration. The formula for distribution of the grant funds remains unchanged.

This office is currently working with affected departments and will provide a complete impact analysis once additional details of the Governor's May Revision are released.

We will continue to keep you advised.

WTF:RA
MR:IGEA:ma

Attachments

c: All Department Heads
Legislative Strategist

ESTIMATED IMPACT TO LOS ANGELES COUNTY FROM THE FY 2013-14 MAY REVISION

Health

Health Reform Implementation/Shift of County Savings (1)

Social Services

County Administration Costs for Health Reform Implementation

CalWORKs Program

Child Support Collections Restoration

Public Health (4)

California Children's Services (5)

TOTAL

Governor's May Revision Proposals	FY 2014-15	FY 2015-16
(88,624,000)	(265,871,000)	(384,036,000)
21,600,000	-	-
13,900,000 (2)	-	-
6,700,000 (3)	-	-
TBD	-	-
(\$46,424,000)	(\$265,871,000)	(384,036,000)

Notes:

- (1) Reflects shift of County savings to the State based on the County's pro-rata share of the 1991 Health Realignment funds.
- (2) Reflects funding for CalWORKs job training and subsidized employment opportunities, promote family stabilization and implement additional appraisal protocols.
- (3) Reflects the restoration of the Statewide reduction included in the FY 2012-13 State Budget Act (\$2.9 million) and the County share of assistance collections no longer retained by the State (\$3.8 million).
- (4) The May Revision clarifies that the responsibility for public health programs will remain at the local level.
- (5) The May Revision proposes to, over time, shift responsibility of the California Children's Services program from counties to the State.

This table represents the estimated loss/gain of State funds based upon the FY 2013-14 May Revision. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.

Health Care Reform Implementation

The May Revision provides \$1.5 billion, which includes \$21.0 million in State General Fund and \$1.5 billion in Federal funding, for the implementation of Federal health care reform on January 1, 2014 and outlines four key principles: 1) it must be sustainable and affordable; 2) it must fairly allocate risk and clearly delineate responsibilities between the State and counties; 3) it must maintain a strong public safety net; and 4) it must support local flexibility. The May Revision includes the following elements related to the implementation of health care reform:

Medi-Cal Expansion. Proposes a State-based expansion of the Medi-Cal Program as provided under the Federal Affordable Care Act and drops the county-based option contained in the January Budget Plan. The Governor continues to assume that with the implementation of health care reform counties will achieve significant savings as responsibility for indigent health care decreases and that the State will bear additional costs and risks to expand Medi-Cal coverage to newly eligible persons.

The Governor proposes to develop a mechanism to determine the level of savings that each county will achieve under health care reform and redirect 100 percent of these savings to fund the State's share of cost to support social services programs at the local level.

Mechanism to Determine County Savings. Under the mechanism, each county's savings would be determined by measuring actual county costs for providing services to Medi-Cal and uninsured patients against the revenues received for these services including: patient care revenues; Federal funds; 1991 Realignment health funding; and net county contributions provided to support health care services. The mechanism would include the following elements:

- Incentives for cost containment and maximizing enrollment in health care coverage;
- An accounting of remaining uninsured persons; and
- A cap on cost of growth of county expenditures based on historic trends.

Shift of County Savings Projections. Although the Governor notes that the mechanism to determine county savings for health care reform has not been developed, the May Revision estimates a shift of 100 percent of savings from local health programs to local social services programs over time as follows:

FY 2013-14	\$300.0 million
FY 2014-15	\$900.0 million
FY 2015-16	\$ 1.3 billion
FY 2016-17	New realignment of social services programs

New Realignment Proposal. The May Revision proposes over time to shift additional health care programs to the State and to give counties more responsibility for social services programs as follows:

- **Health Programs.** Shifts California Children's Services, which provides specialized services for children with severe chronic health conditions, from counties to the State. Counties would retain responsibility for providing and funding public health programs.
- **Social Services Programs.** Proposes to shift to counties greater financial responsibility for the following social services programs:
 - CalWORKs Program. This program provides time-limited cash aid for children and families for temporary assistance for basic needs, and provides welfare-to-work services to help families become economically self-sufficient. The Department of Public Social Services' (DPSS) role is to determine eligibility, provide welfare-to-work activities and child care.
 - CalWORKs Child Care Programs (Stages 1, 2 and 3). This program helps families to access affordable child care as they move through their welfare-to-work activities towards unsubsidized employment and is administered in three Stages. Specifically, Stage 1 is funded by the California Department of Social Services and locally administered by DPSS through contracts with local Resource and Referral/Alternative Payment Program (R&R/APP) agencies. Both Stage 2 and Stage 3 are funded by the California Department of Education and locally administered by the R&R/APP agencies.

Additionally, the May Revision proposes a Statewide reduction of \$21.8 million for CalWORKs Child Care Programs (Stages 1, 2 and 3), including a \$21.5 million reduction to Stage 2.

- CalFresh Program Administration. This program, formerly known as Food Stamps, provides low-income households with benefits to purchase food. The program's administration costs are used by DPSS to determine eligibility and increase access to the program.

The May Revision proposes that counties would be responsible for the coordination of all client services and would have opportunities to reinvest caseload savings and revenue growth in the CalWORKs Program and CalWORKs Child Care Program. Under the May Revision, program eligibility, grant levels and rates would continue to be set at the State level. Furthermore, the State would continue to provide funding for above-average costs that result from economic downturns or policy changes outside of counties' control.

According to the Administration, the transaction would be fiscal in nature for the first year, but progress to a programmatic realigning of duties and oversight to counties in the CalWORKs Program and CalWORKs Child Care Programs over some unspecified period of time. The shift to counties proposed under the CalFresh Program Administration costs would only be on a fiscal basis and no programmatic duties would be shifted.

The May Revision does not include specific details and only outlines the above elements of these realignment proposals. This office will continue to work with the Department of Public Social Services to analyze these proposals and the potential impact to the County as further information becomes available.

Additional Elements of Health Care Reform. The May Revision contains the following items related to the implementation of health care reform. However, specific details were not provided:

- **Preservation of the Health Care Safety Net.** Notes that the State has an interest in maintaining a strong public safety net to ensure access to health care services and that the State will work with counties to support a viable patient base and adequate rates.
- **New Medicaid Waiver.** Indicates that the State will seek to maximize Federal funding through the development of a future Medicaid waiver when the current "Bridge to Reform" waiver expires in 2015.
- **Medi-Cal Expansion Benefits.** Proposes that newly eligible persons will receive comprehensive benefits currently provided by Medi-Cal including county-administered specialty mental health services and county-supported substance use disorder services. Long-term care services will be covered subject to Federal approval of an asset test. At a county option, beneficiaries may receive an enhanced benefit package for substance use disorders.

FY 2013-14 May Budget Revision

Health

Public Health. As reported in more detail in Attachment II, the May Revision proposes that responsibility for the California Children's Services (CCS) Program be shifted over time to the State. The CCS Program provides specialized services for children with severe chronic health conditions, such as cystic fibrosis, hemophilia, and cancer. In addition, the May Revision notes that consideration will be given to the appropriate role of counties with respect to the Medical Therapy Program (MTP). Finally, the May Revision clarifies that counties will retain responsibility of public health programs such as immunizations and communicable disease control activities. **The Department of Public Health (DPH) indicates that while there have been discussions in the past about possibly realigning the CCS Program to the State, there have been no formal discussions about how or when this shift will be implemented. Furthermore, DPH indicates that any potential shift or change to the MTP will require significant long-range planning.**

Coordinated Care Initiative (Dual Eligibles). The May Revision includes various modifications to the Coordinated Care Initiative (CCI), also known as Dual Eligibles, which was established by the FY 2012-13 State Budget Act. Under CCI, eight demonstration counties, including Los Angeles County, will coordinate care for persons eligible for both Medi-Cal and Medicare. The modifications to CCI proposed in the May Revision are as follows: 1) reflects the updated size and scope of the project, reflecting a cap on Los Angeles County participation included in the recent Memorandum of Understanding with the Federal government; 2) reflects changes to the implementation schedule, beginning no sooner than January 2014; Los Angeles County will phase-in beneficiaries over 12 months, subject to further discussion with the Federal government. All other counties will phase in over 12 months, except San Mateo which will implement over three months; and 3) assumes a new State General Fund savings amount of \$119.6 million in FY 2013-14. **The Department of Public Social Services (DPSS) is working with the health plans and CCI stakeholders to analyze the proposed enrollment schedule and its potential impact to the County as further information becomes available.**

Social Services

County Administration Costs and Health Care Reform Implementation. The May Revision includes a \$71.9 million increase Statewide in FY 2013-14 for increased county administration costs related to the implementation of health care reform, such as to process new applications and redeterminations, develop training and curriculum materials, train county eligibility workers and support planning and implementation activities. **DPSS indicates that the County's estimated share of the proposed**

\$71.9 million Statewide increase is \$21.6 million. There is also an equal amount of Federal funds provided for county administration costs which brings the total proposed increase to \$143.8 million Statewide. DPSS indicates the County's total estimated increase is \$43.2 million with both Federal and State funding combined.

CalWORKs. The May Revision includes a \$48.3 million increase Statewide for CalWORKs job training and subsidized employment opportunities, to promote family stabilization and implement additional appraisal protocols, related to the CalWORKs Program restructuring measures, enacted in the FY 2012-13 State Budget Act. **The Department of Public Social Services indicates that the County's estimated share of the proposed \$48.3 million Statewide increase is \$13.9 million.**

Furthermore, the May Revision continues to include \$142.8 million Statewide for CalWORKs Employment Services proposed in the Governor's January Budget. This funding reflects the estimated costs also related to the enacted programmatic changes to the CalWORKs program.

In-Home Support Services (IHSS). The May Revision includes the following proposals related to the IHSS program:

- **IHSS Settlement.** Reflects savings of \$176.4 million in the State General Fund in the current budget year as a result of the 8 percent across-the-board IHSS hours reduction effective July 1, 2013. This is pursuant to a recent settlement agreement which replaced the 3.6 percent across-the-board reduction with the 8 percent amount. This reduction decreases to 7 percent on July 1, 2014.
- **IHSS Caseload Increases.** Proposes an increase of \$80.3 million in FY 2012-13 and a \$120 million increase in FY 2013-14 as a result of increased caseload projections resulting primarily from increased costs per case and from an attrition of savings associated with the health care certification requirement. According to the May Revision, additional months of data indicate more recipients are securing the required certification than was assumed in the Governor's January Budget Proposal.
- **County Maintenance of Effort Increase.** The May Revision proposes a \$47.5 million State General Fund increase necessary to maintain its obligations in the IHSS program in the current year and proposes \$76.5 million in FY 2013-14, both relating to the recently enacted county Maintenance of Effort (MOE) requirement. Effective July 1, 2012, counties' share of the non-Federal portion of IHSS costs for services and administration is based on actual expenditures by counties in FY 2011-12. Under current law, any non-Federal expenditures for services and administration that exceed the county MOE become 100 percent responsibility of the State.
- **Community First Choice Option (CFCO).** The May Revision estimates that 41 percent of IHSS recipients will meet the more restrictive CFCO eligibility

guidelines that go into effect due to the implementation of Federal regulations in July 2013. The regulations require recipients to meet nursing level-of-care. In the current year, CFCO resulted in \$207.3 million in State General Fund savings, and in FY 2013-14, the May Revision estimates savings to be \$134.5 million for the State General Fund.

The Department of Public Social Services indicates the above proposals, if enacted, would not have an impact on net County cost because IHSS program currently operates under a MOE funding structure. The County's base MOE contribution is locked at FY 2011-12 levels and is not impacted by proposed State savings or costs.

CalFresh. The May Revision continues to include an extension of the county CalFresh match waiver for one more year through FY 2013-14. This is important to DPSS as it allows the County to maximize CalFresh administrative funds without additional Net County Cost.

LEADER Replacement System. The May Revision includes funding for the LEADER Replacement System (LRS) at \$86.9 million for FY 2013-14. DPSS indicates this proposed amount is sufficient funding for FY 2013-14. The LRS funding comes from various sources determined by the sharing ratios of the benefitting programs comprised of Federal funds, State General Fund and the County's share.

Child Care & Development Programs.

- **Non-CalWORKs Child Care Programs.** The May Revision proposes a \$2.9 million increase Statewide for FY 2013-14 for capped non-CalWORKs programs and State preschools.
- **Child Care Quality Improvement Activities.** Reflects a \$2.8 million decrease in quality improvement activities Statewide for FY 2013-14, which includes Resource and Referral Agencies, Child Care Initiatives, Local Planning Councils, and other activities. The CEO Office of Child Care notes that these reductions could impact the County's local planning council and the Investing in Early Educators Stipend Program.

This office will work with the CEO Office of Child Care to determine the potential impact of these proposals to the County.

Child Support Services

Child Support Collections Restoration. The May Revision continues to include the restoration of the county share of child support collections in FY 2013-14. This is a restoration from the Statewide reduction included in the FY 2012-13 State Budget Act (\$2.9 million for Los Angeles County). Additionally, the County share of assistance collections (\$3.8 million) is no longer retained by the State under the May Revision, as

has been done in the past two years. **The Child Support Services Department indicates these funding restorations would provide needed fiscal stability for the County's Child Support program.**

2011 Public Safety Realignment

The May Revision does not contain significant changes related to the 2011 Public Safety Realignment and estimates base funding levels similar to the January Proposed Budget. **Attachment IV outlines the estimated allocations for all programs shifted under 2011 Realignment.**

Funding Allocations. The May Revision contains no changes to the base funding levels in FY 2012-13 for all the accounts under 2011 Public Safety Realignment but reflects a decrease in the estimated growth allocations for FY 2012-13 as a result of weaker-than-estimated sales tax performance since January, the primary source of 2011 Realignment funding. The downward projection of sales tax estimates reflects the expiration of the payroll tax holiday, lower cash receipts through March and slower wage growth. **The actual growth allocation total for FY 2012-13 will not be known until September 2013.**

AB 109. The May Revision does include several proposals related to AB 109 and the shift of responsibility for the supervision of certain offenders from the State to counties. These proposals acknowledge some of the issues experienced by counties since implementation of 2011 Realignment in October 2011 and represent efforts to address those challenges.

- **De-Certified Mentally Disordered Offenders.** Budget Trailer Bill language was released with the May Revision which would stipulate that individuals released from State Prison as a Mentally Disordered Offender who are subsequently decertified by a court will be supervised by State parole and not transferred to county supervision. This Trailer Bill Language is substantially similar to **County-sponsored AB 1065 (Holden)**, which is currently in the Assembly Public Safety Committee awaiting reconsideration.
- **Long-Term Offenders Sentenced to County Jail.** Includes a proposal to address long-term offenders that are sentenced under AB 109 to county jails. Since implementation of 2011 Realignment, over 30 individuals have been sentenced to County jail for 10 years or more, with one individual sentenced to 42 years in County jail. The May Revision proposes to authorize the State to house these long-term offenders if a county agrees to house an equivalent population of short-term offenders. The proposal would task county parole boards to make the determination to send long-term inmates to State prison only after they have served three years of their sentence in county jail. Finally, the proposal establishes a presumption of split sentencing authorized under 2011 Realignment but allows exceptions for judges to impose a straight sentence if deemed appropriate.

- **Misclassified Parole and Post-Release Community Supervision Placement.** Budget Trailer Bill language was released with the May Revision which would stipulate that individuals would remain on Parole or Post-Release Community Supervision (PRCS) after 60 days even if a determination is made that they were placed under that supervision in error. According to the Probation Department, their Pre-Release Center works diligently to check for errors in eligibility determinations for PRCS and mostly identify those errors prior to an individual's release or soon thereafter. As a result, the department indicates that this proposal would have little impact on the County.

Public Safety

Probation. The May Revision restores \$72.1 million for funding of SB 678 (Chapter 608, Statutes of 2009) for a Statewide total allocation of \$107.0 million. SB 678, the California Community Corrections Performance Incentive Act, provides funding to county probation departments that successfully reduce the number of felony probationers that are sent to State prison on new charges. The May Revision allocation represents a significant increase over the January Proposed Budget which cut the SB 678 allocation by over \$70.0 million. **The Probation Department was allocated approximately \$53.0 million under SB 678 for FY 2012-13 and expects a similar amount for FY 2013-14 with the restoration.** The formula for distribution of the grant funds remains unchanged.

Trial Courts. The May Revision does not include any restoration or additional funding for the trial courts and maintains funding at the FY 2012-13 level. While the Governor did not include any restoration for trial court funding in the May Revision, a number of legislators have indicated that funding trial courts to maintain equal access to the justice system is a key priority for the State and have stated their intent to advocate for additional funding for trial courts in the budget process.

Veterans Affairs. The May Revision includes the conversion of 84 skilled nursing facility beds at the West Los Angeles Veterans Home into less costly domiciliary beds to better meet the needs of veterans in the greater Los Angeles area.

General Government

State Mandates. The May Revision does not propose any changes to the mandates that were identified for suspension in the January Budget which proposed to suspend four newly identified mandates: 1) Modified Primary Election; 2) Domestic Violence Background Checks; 3) Permanent Absentee Voter II; and 4) Identity Theft. In addition, the January Budget projected further savings from the suspension of the following mandates, recently identified as reimbursable by the Commission on State Mandates: CA Public Records Act; Local Agency Ethics; Tuberculosis Control; Interagency Child Abuse and Neglect Investigation Reports; and Voter ID Procedure. The proposed suspensions are in addition to the 56 local mandates suspended in the FY 2012-13

State Budget Act, which carried the suspensions to FY 2014-15. Finally, the May Revision notes the Administration's plan to reimburse unpaid costs to local governments, schools, and community colleges for unsuspended State mandates.

Redevelopment

The May Revision estimates that as a result of the elimination of redevelopment agencies (RDAs) in 2012, counties are receiving \$1.4 billion in new general purpose revenues in FY 2012-13 and FY 2013-14 combined, while cities are receiving \$1.1 billion and special districts \$500 million. This represents a decrease of \$200 million for counties and \$100 million for cities from the amounts estimated in the January Budget Proposal, and an increase of \$100 million for special districts. It is estimated that \$675 million annually will be distributed to counties, cities and special districts.

Additionally, the May Revision estimates Proposition 98 General Fund savings as a result of the dissolution of the former RDAs of \$1.5 billion, an increase of \$400 million above the January Budget Proposal. The change is due to an increase in the Due Diligence Review remittances received by K-14 schools, an increase in the K-14 savings associated with the Recognized Obligation Payments Schedules cycle reviews, and an increase in property tax revenue.

Job Creation and Economic Development

The May Revision proposes to modernize the State's job creation and economic development incentives to ensure that small businesses are able to easily obtain the manufacturing sales tax exemption, and to dedicate a portion of the hiring tax credit and the incentive fund solely to small businesses.

While the Trailer Bill Language detailing the Governor's proposal has not been released, the League of California Cities reports that Administration officials have indicated that they plan to eliminate the Enterprise Zone (EZ) program and to allow jurisdictions with current EZ designations to wind down activities as funds are repurposed. The League indicates that the Governor's plan is to shift the current \$700 million allocated to the EZ program away from specific geographic areas and instead offer Statewide incentives under three programs, including:

- **Enterprise Zone Sales Tax Program** - Expands the program to a Statewide, upfront sales tax exemption for manufacturing or biotech research and development equipment purchases. The sales tax credit (the State's share) would be eligible to all businesses at the time of purchase, as opposed to filing an income tax return. Administration officials represent this proposal as an expansion of a credit that is currently offered in Enterprise Zones.
- **The New Jobs Hiring Credit** - Refocuses \$225.0 million from an existing undersubscribed hiring tax credit to fund a New Jobs Hiring Credit in census

areas of high unemployment (20 percent) and poverty rates. The new tax credit will be available for the hiring of long-term unemployed workers, unemployed veterans, and people receiving public assistance. Jobs must offer at least two times the minimum wage (or approximately \$16 per hour) to qualify for the credit.

- **California Competes Recruitment and Retention Fund** - Proposes the creation of this program, administered by the Governor's Office of Business and Economic Development, to negotiate agreements to provide businesses tax credits in exchange for investments and employment expansion in California. This fund would include \$100.0 million or more a year in tax credits which would be based on the number of jobs created, the size of the business, and other factors.

The May Revision estimates these proposals to be revenue neutral as a result of improving the performance of dollars already spent.

This office will continue to work with the Community Development Department (CDC) to determine the potential impact of this proposal to the three Enterprise Zones administered by CDC within County.

Environment and Natural Resources

Proposition 39 Implementation. The January Budget proposed to allocate \$400.5 million in Proposition 98 General Funds to K-12 local education agencies on a per-average daily attendance basis to support energy efficiency programs consistent with Proposition 39 of 2012. The May Revision proposes an increase of \$12.5 million for K-12 energy efficiency projects, based on higher Proposition 39 revenues. The May Revision also proposes a minimum grant level of \$15,000 for exceptionally small local education agencies and up to \$50,000 for other local education agencies to initiate and complete energy efficiency projects. Additionally, the May Revision proposes eight positions in the California Energy Commission to provide technical assistance to small local education agencies such as identifying cost-effective energy savings opportunities and providing guidance on establishing baselines and tracking performance.

Education

The May Revision reflects a \$2.9 billion increase in Proposition 98 funding for K-14 education programs in the current year and projects the Proposition 98 funding for K-14 education will grow by over \$17.4 billion through FY 2016-17, representing an increase of more than \$2,700 per student. The May Revision also maintains funding for higher education with a focus of improving accessibility and affordability.

- **K-12 and Community Colleges.** Proposes an increase of \$2.9 billion in Proposition 98 funding for K-14 education in FY 2012-13 but includes a projected decrease of \$1.8 billion for FY 2013-14. Included in the \$2.9 billion increase for FY2012-13 is a one-time allocation of \$1.0 billion to school districts to implement

the new national standards for writing and math. This one-time funding can be used for professional development and investments in instructional materials and technology enhancements.

The May Revision continues to propose a new funding formula for local school districts and offices of education to provide more local control and focus additional resources on students from low-income families, English language learners and foster youth to reflect the higher costs associated with educating those student groups. Additionally, the May Revision continues to propose the elimination of the Foster Youth Services (FYS) Program grants to county offices of education and six core school district programs, and instead the Governor proposes to fund local education agencies that serve foster youth through the new funding formula. According to the Department of Children and Family Services, although the Governor's proposal is not expected to have a direct fiscal impact to the department, it would potentially impact services to 5,630 school-aged foster youth in non-relative, out-of-home care in the County who are entitled to receive FYS services. **This office will continue to work with the Department of Children and Family Services and the Los Angeles County Office of Education to estimate the impact of this proposal.**

- **Higher Education.** Maintains the \$500.0 million allocation to the University of California and California State University systems. The May Revision also anticipates additional increases to both systems of higher education over the next four years to maintain quality and make higher education more affordable and efficient.
- **Adult Education.** Proposes to delay the restructuring of the adult education system as proposed in the January Budget Plan. Instead, the May Revision maintains the status quo for existing K-12 and Community College Adult Education for two years and allocates \$30.0 million in Proposition 98 funding in FY 2013-14 for two-year planning and implementation grants to fund adult education schools jointly operated by regional consortia of community colleges and school districts.

2011 Realignment Estimate¹ - Based on 2013-14 May Revision

	2012-13	2012-13 Growth	2013-14	2013-14 Growth	2014-15	2014-15 Growth
Law Enforcement Services	\$ 1,942.6		\$ 2,113.3		\$ 2,069.2	
Trial Court Security Subaccount	496.4	6.1	502.5	11.0	513.5	21.7
Enhancing Law Enforcement Activities Subaccount ²	489.9	-	489.9	-	489.9	-
Community Corrections Subaccount ³	842.9	45.3	998.9	82.4	934.1	162.5
District Attorney and Public Defender Subaccount ³	14.6	3.0	17.1	5.5	15.8	10.8
Juvenile Justice Subaccount	98.8	6.1	104.9	11.0	115.9	21.7
<i>Youthful Offender Block Grant Special Account</i>	<i>(93.4)</i>	<i>(5.8)</i>	<i>(99.1)</i>	<i>(10.4)</i>	<i>(109.5)</i>	<i>(20.5)</i>
<i>Juvenile Reentry Grant Special Account</i>	<i>(5.5)</i>	<i>(0.3)</i>	<i>(5.8)</i>	<i>(0.6)</i>	<i>(6.4)</i>	<i>(1.2)</i>
Growth, Law Enforcement Services	60.5	60.5	110.0	109.9	216.8	216.7
Mental Health⁴	1,120.6	5.6	1,120.6	10.2	1,120.6	20.1
Support Services	2,604.9		2,732.1		2,941.5	
Protective Services Subaccount ⁵	1,640.4	92.2	1,753.0	126.3	1,894.6	201.1
Behavioral Health Subaccount ⁶	964.5	14.6	979.1	67.8	1,046.9	181.4
<i>Women and Children's Residential Treatment Services</i>	<i>(5.1)</i>	-	<i>(5.1)</i>	-	<i>(5.1)</i>	-
Growth, Support Services	112.4	112.4	204.3	204.3	402.6	402.6
Account Total and Growth	5,841.0		6,280.3		6,750.7	
Revenue						
1.0625% Sales Tax	5,386.3		5,812.8		6,276.4	
Motor Vehicle License Fee	454.6		467.3		474.1	
Revenue Total	\$ 5,840.9		\$ 6,280.1		\$ 6,750.5	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts accordance with and in the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹Dollars in millions.

²Allocation is capped at \$489.9 million.

³2012-13 and 2013-14 growth is not added to subsequent fiscal year's subaccount base allocations.

⁴Growth does not add to base.

⁵Rolling base includes a \$200 million Child Welfare Services Restoration and incremental funding for Chapter 559, Statutes of 2010 (AB 12). AB 12 funding increments consist of: \$18.2m in 2012-13, \$20.4m in 2013-14, and \$15.3m in 2014-15.

⁶The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.